

**PIERRE-JOSEPH
PROUDHON**



INTEREST AND PRINCIPAL



**PRINCIPLES, PROPOSITIONS &
DISCUSSIONS
FOR LAND & FREEDOM**

AN INTRODUCTORY WORD TO THE
'ANARCHIVE'
"Anarchy is Order!"

*'I must Create a System or be enslav'd by
another Man's.
I will not Reason & Compare: my business
is to Create'
(William Blake)*

During the 19th century, anarchism has developed as a result of a social current which aims for freedom and happiness. A number of factors since World War I have made this movement, and its ideas, disappear little by little under the dust of history.

After the classical anarchism – of which the Spanish Revolution was one of the last representatives—a 'new' kind of resistance was founded in the sixties which claimed to be based (at least partly) on this anarchism. However this resistance is often limited to a few (and even then partly misunderstood) slogans such as 'Anarchy is order', 'Property is theft',...

Information about anarchism is often hard to come by, monopolised and intellectual; and therefore visibly disappearing. The 'anarchive' or 'anarchist archive' Anarchy is Order (in short **A.O**) is an attempt to make the '**principles, propositions and discussions**' of this tradition available again for anyone it concerns. We believe that these texts are part of our own heritage. They don't belong to publishers, institutes or specialists.

These texts thus have to be available for all anarchists and other people interested. That is one of the conditions to give anarchism a new impulse, to let the 'new

anarchism' outgrow the slogans. This is what makes this project relevant for us: we must find our roots to be able to renew ourselves. We have to learn from the mistakes of our socialist past. History has shown that a large number of the anarchist ideas remain standing, even during the most recent social-economic developments.

'Anarchy Is Order' does not make profits, everything is spread at the price of printing- and papercosts. This of course creates some limitations for these archives.

Everyone is invited to spread along the information we give . This can be done by copying our leaflets, printing from the CD that is available or copying it, e-mailing the texts ,...Become your own anarchiv!!!

(Be aware though of copyright restrictions. We also want to make sure that the anarchist or non-commercial printers, publishers and authors are not being harmed. Our priority on the other hand remains to spread the ideas, not the ownership of them.)

The anarchiv offers these texts hoping that values like **freedom, solidarity and direct action** get a new meaning and will be lived again; so that the struggle continues against the

*'demons of flesh and blood, that sway scepters down
here;
and the dirty microbes that send us dark diseases and
wish to
squash us like horseflies;
and the will-'o-the-wisp of the saddest ignorance'.
(L-P. Boon)*

The rest depends as much on you as it depends on us.
Don't mourn, Organise!

Comments, questions, criticism, cooperation can be send
to

A.O@advalvas.be

A complete list and updates are available on this
address, new texts are always

welcome!!

ÊTRE GOUVERNÉ

c'est être gardé à vue, inspecté, espionné, dirigé, légiféré, réglementé, parqué, endoctriné, prêché, contrôlé, estimé, apprécié, censuré, commandé, par des êtres qui n'ont ni titre ni la science, ni la vertu...

Etre gouverné, c'est être, à chaque opération, à chaque transaction, à chaque mouvement, noté, enregistré, recensé, tarifé, timbré, toisé, coté, cotisé, patenté, licencié, autorisé, apostillé, admonestré, empêché, réformé, redressé, corrigé. C'est, sous prétexte d'utilité publique, et au nom de l'intérêt général, être mis à contribution, exercé, rançonné, exploité, monopolisé, concusionné, pressuré, mystifié, volé ; puis, à la moindre rébce, au premier mot de plainte, réprimé, amendé, vilipendié, vexé, traqué, houspillé, assomé, désarmé, garotté, emprisonné, fusillé, mitraillé, jugé, condamné, déporté, sacrifié, vendu, trahi, et pour comble, joué, berné, outragé, déshonoré. Voilà le gouvernement, voilà sa justice, voilà sa morale !

Et qu'il y a parmi nous des démocrates qui prétendent que le gouvernement a du bon ; des socialistes qui soutiennent, au nom de la liberté, de l'égalité et de la fraternité, cette ignominie ; des prolétaires qui posent leur candidature à la présidence la République !

J.-P. PROUDHON ("Idée générale de la révolution au XIXe siècle")

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INTEREST AND PRINCIPAL **- LOAN IS A SERVICE-**

P.-J. PROUDHON

These letters, addressed to Frederic Bastiat, an economist, originally appeared in a debate published in *The Voice of the People*, in 1849.

On the one hand, it is very true, as you have unquestionably established, that a loan is a service. And as every service has a value, and, in consequence, is entitled by its nature to a reward, it follows that a loan ought to have its price, or, to use the technical phrase, ought to bear interest.

But it is also true, and this truth is consistent with the preceding one, that he who lends, under the ordinary conditions of the professional lender, does not deprive himself, as you phrase it, of the capital which he lends. He lends it, on the contrary, precisely because the loan is not a deprivation to him; he lends it because he has no use for it himself, being sufficiently provided with capital without it; he lends it, finally, because he neither intends nor is able to make it valuable to him personally,--because, if he should keep it in his own hands, this capital, sterile by nature, would remain sterile, whereas, by its loan and the resulting interest, it yields a profit which enables the capitalist to live without working. Now, to live without working is, in political as well as moral economy, a contradictory proposition, an impossible thing.

The proprietor who possesses two estates, one at Tours, and the other at Orleans, and who is obliged to fix his residence on the one which he uses, and consequently to abandon his

residence on the other, can this proprietor claim that he deprives himself of anything, because he is not, like God, ubiquitous in action and presence? As well say that we who live in Paris are deprived of a residence in New York! Confess, then, that the privation of the capitalist is akin to that of the master who has lost his slave, to that of the prince expelled by his subjects, to that of the robber who, wishing to break into a house, finds the dogs on the watch and the inmates at the windows.

Now, in the presence of this affirmation and this negation diametrically opposed to each other, both supported by arguments of equal validity, but which, though not harmonizing, cannot destroy each other, what course shall we take?

You persist in your affirmation, and say: "You do not wish to pay me interest? Very well! I do not wish to lend you my capital. Try working without capital." On the other hand, we persist in our negation, and say: "We will not pay you interest, because interest, in social economy, is a premium on idleness, the primary cause of misery and the inequality of wealth." Neither of us is willing to yield, we come to a stand-still.

This, then, is the point at which Socialism takes up the question. On the one hand, the commutative justice of interest; on the other, the organic impossibility, the immorality of interest; and, to tell you the truth at once, Socialism aims to convert neither party--the Church, which denies interest, nor the political economy, which supports it--especially as it is convinced that both are right. Let us see, now; how it analyzes the problem, and what it proposes, in its turn, that is superior to the arguments of the old moneylenders, too vitally interested to be worthy of

belief, and to the ineffectual denunciations uttered by the Fathers of the Church.

Since the theory of usury has finally prevailed in Christian as well as in Pagan countries; since the hypothesis, or fiction, of the productivity of capital has become a practical fact among nations--let us accept this economic fiction as we have accepted for thirty-three years the constitutional fiction, and let us see what it results in when carried to its ultimate. Instead of simply rejecting the idea, as the Church has done --a futile policy--let us make from it a historical and philosophical deduction; and, since the word is more in fashion than ever, let us trace the evolution.

Moreover, this idea must correspond to some reality; it must indicate some necessity of the mercantile spirit; else nations never would have sacrificed to it their dearest and most sacred beliefs.

See, then, how Socialism, entirely convinced of the inadequacy of the economic theory as well as of the ecclesiastical doctrine, treats in its turn the question of usury.

First, it observes that the principle of the productivity of capital is no respecter of persons, grants no privileges; it applies to every capitalist, regardless of rank or dignity. That which is legitimate for Peter is legitimate for Paul; both have the same right to usury as well as to labor. When, then,--I go, back to the example which you have used,--when you lend me, at interest, the plane which you have made for smoothing your planks, if, in my turn, I lend you the saw which I have made for cutting up my lumber, I also shall be entitled to interest.

The right of capital is alike for all; all, in the proportion that they lend and borrow, ought to receive and pay interest. Such is the first consequence of your theory, which would not be a theory, were not the right which it establishes universal and reciprocal; this is self-evident.

Let us suppose, then, that of all the capital that I use, whether in the form of machinery or of raw material, half is lent to me by you; suppose also that of all the capital used by you half is lent to you by me; it is clear that the interests which we must pay will offset each other; and, if equal amounts of capital are advanced, the interests cancelling each other, the balance will be zero.

In society, it is true things do not go on precisely in this way. The loans that the producers reciprocally make to each other are not always equal in amount, therefore the interests that they have to pay are also unequal; hence the inequality of conditions and fortunes.

But the question is to ascertain whether this equilibrium in the loaning of capital, labor, and skill, and, consequently, equality of income for all citizens, perfectly admissible in theory, is capable of realization in practice; whether this realization is in accordance with the tendencies of society; whether, finally and unquestionably, it is not the inevitable result of the theory of usury itself.

Now, this is what Socialism affirms, now that it has arrived at an understanding of itself, the Socialism which no longer distinguishes itself from economic science, studied at once in the light of its accumulated experience and in the power of its deductions. In fact, what does the history of civilization, the history of political economy, tell us concerning this great question of interest?

It tells us that the mutual loaning of capital, material, or immaterial, tends more and more towards equilibrium, owing to the various causes enumerated below, which the most conservative economists cannot dispute:--

First--The division of labor, or the separation of industries, which, infinitely multiplying both tools and raw material, multiplies in the same proportion the loans of capital.

Second--The accumulation of capital, an accumulation which results from diversity of industries, producing between capitalists a competition similar to that between merchants, and, consequently, effecting gradually a lowering of the rent of capital, a reduction of the rate of interest.

Third--The continually increasing power of circulation which capital acquires through the use of specie and bills of exchange.

Fourth--Finally, public security.

Such are the general causes which, for centuries have developed among producers a reciprocity of loans tending more and more to equilibrium and consequently to a more and more even balance of interests, to a continual diminution of the price of capital.

These facts cannot be denied; you yourself admit them; only you mistake their principle and purport, by giving capital the credit for the progress made in the domain of industry and wealth, whereas this progress is caused not by capital, but by the circulation of capital.

The facts being thus analyzed and classified Socialism asks whether, in order to bring about this equilibrium of credit and income, it is not possible to act directly, not on capital, remember, but on circulation; whether it is not possible so to organize this circulation as to inaugurate, at one blow, between capitalists and producers (two classes now hostile, but theoretically identical) equivalence of loans, or, in other words, equality of fortunes.

To this question Socialism again replies: Yes, it is possible, and in several ways.

Suppose, in the first place, to confine ourselves to the present conditions of credit, the operations of which are carried on mainly through the intervention of specie--suppose that all the producers in the republic, numbering more than ten millions, tax themselves, each one, to the amount of only one per cent of their capital. This tax of one per cent upon the total amount of the capital of the country, both real and personal, would amount to more than a thousand million of francs.

Suppose that by means of this tax a bank be founded, in competition with the Bank (miscalled) of France, discounting and giving credit on mortgages at the rate of one-half of one per cent.

It is evident, in the first place, that the rate of discount on commercial paper, the rate of loans on mortgages, the dividend of invested capital, etc., being one-half of one per cent, the cash capital in the hand of all usurers and moneylenders would be immediately struck with absolute sterility; interest would be zero, and credit gratuitous.

If commercial credit and that based on mortgages--in other words, if money capital, the capital whose exclusive function is to circulate--was gratuitous, house capital would soon become so; in reality, houses no longer would be capital; they would be merchandise, quoted in the market like brandy and cheese, and rented or sold--terms which would then be synonymous--at cost.

If houses, like money, were gratuitous--that is to say, if use was paid for as an exchange, and not as a loan--land would not be slow in becoming gratuitous also; that is, farmrent, instead of being rent paid to a non-cultivating proprietor, would be the compensation for the difference between the products of superior and inferior soils; or, better, there no longer would exist, in reality, either tenants or proprietors; there would be only husbandmen and wine-growers, just as there are joiners and machinists.

Do you wish another proof of the possibility of making all capital gratuitous by the development of economic institutions?

Suppose that instead of our system of taxes, so complex, so burdensome, so annoying, which we have inherited from the feudal nobility, a single tax should be established, not on production, circulation, consumption, habitation, etc., but in accordance with the demands of justice and the dictates of economic science, on the net capital falling to each individual. The capitalist, losing by taxation as much as or more than he gains by rent and interest, would be obliged either to use his property himself or to sell it; economic equilibrium again would be established by this simple and moreover inevitable intervention of the treasury department.

Such is, substantially, Socialism's theory of capital and interest.

Not only do we affirm, in accordance with this theory (which, by the way, we hold in common with the economists) and on the strength of our belief in industrial development, that such is the tendency and the import of lending at interest; we even prove, by the destructive results of economy as it is, and by a demonstration of the causes of poverty, that this tendency is necessary, and the annihilation of usury inevitable.

In fact, rent, reward of capital, interest on money, in one word, usury, constituting, as has been said, an integral part of the price of products, and this usury not being the same for all, it follows that the price of products, composed as it is of wages and interest, cannot be paid by those who have only their wages, and no interest to pay it with; so that, by the existence of usury, labor is condemned to idleness and capital to bankruptcy.

This argument, one of that class which mathematicians call the *reductio ad absurdum*, showing the organic impossibility of lending at interest, has been repeated a hundred times by Socialism.

Why do not the economists notice it? Do you really wish to refute the ideas of Socialism on the question of interest? Listen, then, to the questions which you must answer:--

1. Is it true that, though the loaning of capital, when viewed objectively, is a service which has its value, and which consequently should be paid for, this loaning, when viewed subjectively, does not involve an actual sacrifice on the part of the capitalist; and consequently that it does not establish the right to set a price on it?

2. Is it true that usury, to be unobjectionable, must be equal; that the tendency of society is towards this equalization; so that usury will be entirely legitimate only when it has become equal for all,--that is, nonexistent?
3. Is it true that a national bank, giving credit and discount gratis, is a possible institution?
4. Is it true that the effects of the gratuity of credit and discount, as well as that of taxation when simplified and restored to its true form, would be the abolition of rent of real estate, as well as of interest on money?
5. Is it true that the old system is a contradiction and a mathematical impossibility?
6. Is it true that political economy, after having, for several thousand years, opposed the view of usury held by theology, philosophy, and legislation, comes, by the application of its own principles, to the same conclusion?
7. Is it true, finally, that usury has been, as a providential institution, simply an instrument of equality and progress, just as, in the political sphere, absolute monarchy was an instrument of liberty and progress, and as, in the judicial sphere, the boiling-water test, the duel, and the rack were, in their turn, instruments of conviction and progress?

These are the points that our opponents are bound to examine before charging us with scientific and intellectual weakness; these, Monsieur Bastiat, are the points on which your future arguments must turn, if you wish them to produce a definite result. The question is stated clearly and categorically: permit us to believe that, after having examined it, you will perceive that there is something in the Socialism of the nineteenth century that is beyond the reach of your antiquated political economy

INTEREST AND PRINCIPAL
-ARGUMENTS DRAWN FROM THE
OPERATIONS OF THE BANK OF
FRANCE-

P.-J. PROUDHON

These letters, addressed to Frederic Bastiat, an economist, originally appeared in a debate published in The Voice of the People, in 1849.

It is not true--and the facts just cited prove beyond a doubt that it is not--that the decrease of interest is proportional to the increase of capital. Between the price of merchandise and interest of capital there is not the least analogy; the laws governing their fluctuations are not the same; and all your dinning of the last six weeks in relation to capital and interest has been utterly devoid of sense. The universal custom of banks and the common sense of the people give you the lie on all these points in a most humiliating manner.

Now, would you believe, sir,--for indeed you do not seem to be well-informed about anything,--that the Bank of France, an association composed of honest people, philanthropists, God-fearing men, utterly incapable of compromising, with their consciences, continues to charge four per cent on all its discounts without allowing the public to derive the slightest bonus therefrom? Would you believe that it regulates the dividends of its stockholders, and quotes its stock in the money-market, on this basis of four per cent on a capital of four hundred and thirty-one millions not its own? Say, is that robbery, yes or no?

But we have not reached the end. I have not begun to tell you of the crimes of this society of stock-jobbers, founded by Napoleon for the express purpose of supporting parasitic officials and proprietors and sucking the nation's life-blood. A few millions, more or less, are not sufficient to affect dangerously a population of thirty-six millions of men. That portion of the robberies committed by the Bank of France which I have exposed is but a trifle: only the results are worthy of consideration.

The fortune and destiny of the country is today in the hands of the Bank of France. If it would relieve industry and commerce by a decrease of its rate of discount proportional to the increase of its reserves; in other words, if it would reduce the price of its credit to three-fourths of one per cent, which it must do in order to quit stealing,--this reduction would instantly produce, throughout the republic and all Europe, incalculable results. They could not be enumerated in a volume: I will confine myself to the indications of a few.

If, then, the credit of the Bank of France, when that bank has become a National Bank, should be loaned at three-fourths of one per cent instead of at four per cent, ordinary bankers, notaries, capitalists, and even the stockholders of the bank itself, would be immediately compelled by competition to reduce their interest, discount, and dividends to at least one per cent, including incidental expenses and brokerage. What harm, think you, would this reduction do to borrowers on personal credit, or to commerce and industry, who are forced to pay, by reason of this fact alone, an annual tax of at least two thousand millions?

If financial circulation could be effected at a rate of discount representing only the cost of administration,

drafting, registration, etc., the interest charged on purchases and sales on credit would fall in its turn from six per cent to zero,--that is to say, business would then be transacted on a cash basis: there would be no more debts. Again, to how great a degree, think you, would that diminish the shameful number of suspensions, failures, and bankruptcies?

But as in society net product is undistinguishable from raw product, so in the light of the sum total of economic facts capital is undistinguishable from product. These two terms do not, in reality, stand for two distinct things; they designate relations only. Product is capital; capital is product; there is a difference between them only in private economy; none whatever in public economy.

If, then, interest, after having fallen, in the case of money, to three-fourths of one per cent,--that is, to zero, inasmuch as three-fourths of one per cent represents only the service of the bank,--should fall to zero in the case of merchandise also, by analogy of principles and facts it would soon fall to zero in the case of real estate: rent would disappear in becoming one with liquidation. Do you think, sir, that that would prevent people from living in houses and cultivating land?

If, thanks to this radical reform in the machinery of circulation, labor was compelled to pay to capital only as much interest as would be a just reward for the service rendered by the capitalist, specie and real estate being deprived of their reproductive properties and valued only as products,--as things that can be consumed and replaced,--the favor with which specie and capital are now looked upon would be wholly transferred to products; each individual, instead of restricting his consumption, would strive only to increase it. Whereas, at present, thanks to the

restriction laid upon consumable products by interest, the means of consumption are always very much limited, then, on the contrary, production would be insufficient: Labor would then be secure in fact as well as in right.

The laboring class, gaining at one stroke the five thousand millions, or thereabouts, now taken in the form of interest from the ten thousand which it produces, plus five thousand millions which this same interest deprives it of by destroying the demand for labor, plus five thousand millions which the parasites, cut off from a living, would then be compelled to produce, the national production would be doubled and the welfare of the laborer increased four-fold. And you, sir, whom the worship of interest does not prevent from lifting your thoughts to another world,-- what say you to this improvement of affairs here below?

Do you see now that it is not the multiplication of capital which decreases interest, but on the contrary, that the decrease of interest multiplies capital?

But all this is displeasing to the capitalists and distasteful to the bank. The bank holds in its hand the horn of plenty which the people have entrusted to it: that horn is the three hundred and forty-one millions of specie accumulated in its vaults, which testify so loudly to the power of the public credit. To revive labor and diffuse wealth everywhere, the bank needs to do but one thing; namely, reduce its rate of discount to such a figure that the sum total of the interest it receives shall be equal to four per cent of ninety millions. It will not do it. For the sake of a few millions more to distribute among its stockholders, and which it steals, it prefers to cause an annual loss to the country of ten thousand millions. In order to reward parasitism, remunerate crime, satisfy the intemperate cravings of two

millions of officials, stock-jobbers, usurers, prostitutes, and spies, and preserve this leper of a Government, it will cause, if necessary, thirty-four millions of men to rot in poverty. Once more, I ask, is that robbery? Is that rapine, plunder, premeditated and willful murder?

Have I told all?--No; that would require ten volumes, but I must stop. I will close by considering a stroke which seems to me a masterpiece of its kind, and to which I ask your undivided attention. A defender of capital, you are not acquainted with its tricks.

The amount of specie, I will not say existing, but circulating in France, including the bank's reserve, does not exceed, by common estimation, one thousand millions.

At four per cent interest--I am reasoning on the supposition of paid credit--the laboring people should pay forty millions annually for the use of this capital.

Can you, sir, tell me why, instead of forty millions, we are paying sixteen hundred millions--I say sixteen hundred millions--as the reward of this capital?

"Sixteen hundred millions! One hundred and sixty per cent! Impossible!" you exclaim. Did I not tell you, sir, that you knew nothing about political economy? This is the fact, though to you, I am sure, it is still an enigma.

The amount of mortgages, according to the most reliable authorities, is twelve thousand millions; some put it at fourteen thousand millions;

We will say12,000 millions

Amount of notes of hand, at least 6,000 millions

Amount invested in sleeping partnership, about	2,000
millions	
To which should be added the public debt	8,000
millions	

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Total	28,000 millions
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which agriculture, manufactures, and commerce, in a word, labor, which produces everything, and the State, which produces nothing and is supported by labor, owe to capital.

All these debts--note this point--arise from money loaned, or said to have been loaned, at four, five, six, eight, twelve, and even fifteen per cent.

Taking six per cent as the average rate of interest on the first three items, which amount to twenty thousand millions, they would yield twelve hundred millions. Add the interest on the public debt, which is about four hundred millions, and we have altogether sixteen hundred millions of interest per annum on a capital of one thousand millions. Now, then, tell me, is it in this case also the scarcity of specie that causes the enormous amount of interest? No, for all these amounts were loaned, as we have seen, at an average rate of six per cent. How, then, has an interest, stipulated at six per cent, become an interest of one hundred and sixty per cent? I will tell you.

You, sir, who regard all capital as naturally and necessarily productive, know that this productivity is not possessed by all kinds of property in the same degree; that it belongs mainly to two kinds, the kind known as real estate (land and houses), if we have a chance to lease them (which is not always easy or always safe), and the kind known as money.

Money, money especially! that is the capital par excellence, the capital which is lent, which is hired, which is paid for, which produces all those wonderful financiers whom we see maneuvering at the bank, at the stock exchange, and at all the interest and usury shops.

But money is not, like land, capable of cultivation, nor, like houses or clothes, can it be consumed by use. It is only a token of exchange, receivable by all merchants and producers, and with which a shoemaker, for example, can buy him a hat. In vain, through the agency of the bank, does paper, little by little and with universal consent, get substituted for specie: the prejudice sticks fast, and if bank paper is received in lieu of specie, it is only because the opinion prevails that it can be exchanged at will for specie. Specie alone is in demand.

When I lend money, then, it is really the power to exchange my unsold product of today or of the future which I lend: money, in itself, is useless. I take it only to expend it; I neither consume nor cultivate it. The exchange once consummated, the money again becomes transferable, and capable, consequently, of being loaned anew. Thus it goes on, and as, by the accumulation of interest, money-capital, in the course of exchange, always returns to its source, it follows that the new loan, always made by the same hand, always benefits the same persons.

Do you say that, inasmuch as money serves to facilitate the exchange of capital and products, the interest paid on it is a compensation not so much for the money itself as for the capital exchanged; and that, thus viewed, the sixteen hundred millions of interest paid an one thousand millions of specie represent really the reward of from twenty-five to

thirty thousand millions of capital? That has been said or written somewhere by an economist of your school.

Such an allegation cannot be sustained for one moment. How happens it, I ask you, that houses are rented, that lands are leased, that merchandise sold on credit bears interest? Just because of the use of specie; specie, which intervenes, as a fiscal agent, in all transactions; specie, which prevents houses and lands from being exchanged instead of loaned, and merchandise from being sold for cash. Specie, then, intervening everywhere as a supplementary capital, as an agent of circulation, as a means of security,--this it is precisely that we pay for, and the remuneration of the service rendered by it is exactly the point now in question.

And since in another place we have seen from an explanation of the workings of the Bank of France and the consequences of the accumulation of its metallic reserve, that a capital of ninety millions of specie, having to produce an annual interest of four per cent, admits of a rate of discount of three, two, one, or even three-fourths of one per cent, according to the amount of business transacted by the bank, it is very evident, further, that the sixteen hundred millions of interest which the nation pays to its usurers, bankers, bondholders, notaries, and sleeping-partners are simply the rent of one thousand millions of gold and silver, unless you prefer to acknowledge with me that these sixteen hundred millions are obtained by robbery.

INTEREST AND PRINCIPAL
-THE CIRCULATION OF CAPITAL, NOT
CAPITAL ITSELF, GIVES BIRTH TO
PROGRESS-

P.-J. PROUDHON

These letters, addressed to Frederic Bastiat, an economist, originally appeared in a debate published in *The Voice of the People*, in 1849.

Thus it is with interest on capital, legitimate when a loan was a service rendered by citizen to citizen, but which ceases to be so when society has acquired the power to organize credit gratuitously for everybody. This interest, I say, is contradictory in its nature, in that, on the one hand, the service rendered by the lender is entitled to remuneration, and that, on the other, all wages suppose either a production or a sacrifice, which is not the case with a loan. The revolution which is effected in the legitimacy of lending originates there. That is how Socialism states the question; that, therefore, is the ground on which the defenders of the old regime must take their stand.

To confine one's self to tradition, to limit one's self to saying a loan is a service rendered which ought, therefore, to be compensated, without entering into the considerations which tend to annihilate interest, is not to reply. Socialism, with redoubled energy, protests, and says: I have nothing to do with your service,--service for you, but robbery for me,--as long as it is possible for society to furnish me with the same advantages which you offer me, and that without reward. To impose on me such a service in spite of myself,

by refusing to organize the circulation of capital, is to make me submit to an unjust discount, is to rob me.

Thus your whole argument in favor of interest consists in confounding epochs,--I mean to say, in confounding that which is legitimate in lending with that which is not,--whereas I, on the contrary, carefully distinguish between them. I will proceed to make this intelligible to you by an analysis of your letter.

I take up your arguments one by one. In my first reply I made the observation that he who lends does not deprive himself of his capital. You reply: What matters it, if he has created his capital for the express purpose of lending it?

In saying that you betray your own cause. You acquiesce, by those words, in my antithesis, which consists in saying: The hidden reason why lending at interest, legitimate yesterday, is no longer so today, is because lending, in itself, does not involve privation. I note this confession.

But you cling to the intention: What matters it, you says if the lender has created his capital for the express purpose of lending it?

To which I reply: And what do I care, indeed, for your intention, if I have really no need of your service, if the pretended service which you wish to do me becomes necessary only through the ill-will and incapacity of society? Your credit resembles that which the pirate gives to his captive, when he gives him his liberty in return for a ransom. I protest against your credit at five per cent, because society is able and ought to give it to me at zero per cent; and, if it refuses to do so, I accuse it, as well as you, of

robbery; I say that it is an accomplice, an abettor, an organizer of robbery.

Comparing a loan to a sale, you say: Your argument is as valid against the latter as against the former, for the hatter who sells hats does not deprive himself.

No, for he receives for his hats--at least he is reputed to receive for them--their exact value immediately, neither more nor less. But the capitalist lender not only is not deprived, since he recovers his capital intact, but he receives more than his capital, more than he contributes to the exchange; he receives in addition to his capital an interest which represents no positive product on his part. Now, a service which costs no labor to him who renders it is a service which may become gratuitous: this you have already told us yourself.

After having recognized the non-privation attendant upon a loan, you admit further "that it is not theoretically impossible that interest, which today constitutes an integral part of the price of commodities, may become the same for all, and thereby be abolished." "But," you add, "for this other things are needed than a new bank. Let Socialism endow all men with equal activity, skill, honesty, economy, foresight, needs, desires, virtues, vices, and chances even, and then it will have succeeded."

So that you enter upon the question only to immediately avoid it. Socialism, at the point which it has now reached, justly claims that it is by means of a reform in banking and taxation that we can arrive at this balance of interests. Instead of passing over, as you do, this claim of Socialism, stop here and refute it: you will thereby demolish all the utopias of the world. For Socialism affirms--and without

this affirmation Socialism could not exist, it would be a nonentity--that it is not by endowing all men with equal "activity, skill, honesty, economy, foresight, needs, desires, virtues, vices, and chances even" that we shall succeed in balancing interest and equalizing incomes; it maintains that we must, on the contrary, begin by centralizing credit and abolishing interest, in order to equalize faculties, needs, and chances. Let there be no more robbers among us, and we shall be all virtuous, all happy! That is Socialism's creed. I feel the keenest regret in telling you of it, but really your acquaintance with Socialism is so slight that you run against it without seeing it.

You persist in attributing to capital all social progress in the domain of wealth, while I, for my part, attribute it to circulation; and you say that here I mistake the cause for the effect.

But, in maintaining such a proposition, you unwittingly refute your own argument. J. B. Say has shown--and of this fact you are not ignorant--that the transportation of a value, be that value called money or merchandise, is a value in itself; that it is as real a product as wheat and wine; that consequently the service of the merchant and banker deserves to be remunerated equally with that of the husband-man and wine-grower. It is on this ground that you stand when you claim wages for the capitalist who, by lending his capital, the return of which is guaranteed him, performs the office of transportation, of circulation. In lending, you said in your first letter, I render a service, I create a value. Such were your words, which we have admitted: in this respect we both agreed with the master.

I am justified, then, in saying that it is not capital itself, but the circulation of capital,--that kind of service, product,

merchandise, value, or reality, which political economy calls movement or circulation, and which, indeed, constitutes the whole subject-matter of economic science,--that causes wealth. We remunerate all who render this service; but we affirm that, as far as capital, properly speaking, or money is concerned, it is society's duty to render it to us gratuitously; that if it does not do so, there is fraud and robbery. Do you now understand the real point on which the social question turns?

After having expressed your regret at the division of capitalists and laborers into two hostile classes,--which surely is not the fault of Socialism,--you take the very useless trouble of showing me by illustrations that every laborer is in some degree a capitalist, and does a work of capitalization,--that is, usury. And who, pray, ever dreamed of denying it? Who has told you that what we recognize as legitimate once in the capitalist, we condemn at the same time in the laborer?

Yes, we know that the price of all merchandise and service may be analyzed at the present day as follows:--

Raw material;

Compensation of tools, and incidental expenses;

Wages of labor.

Interest of capital.

Thus it is in all kinds of business,--agriculture, industry, commerce, and transportation. These are the fourches caudines of every one who is not a parasite, be he capitalist or laborer. You need not enter into long details upon this subject, very interesting though they are and clearly delightful to your imagination.

I repeat: The problem of Socialism is to make this fourth element which enters into the price of commodities--interest on capital--equal for all producers, and consequent nugatory. We maintain that this is possible; that, if this is possible, it is society's duty to procure gratuitous credit for all; that, failing to do this, it will not be a society, but a conspiracy of capitalists against laborers, a compact for purposes of robbery and murder.

Understand then, once for all, that it is not necessary to show us how capital is formed, how it accumulates through interest, how interest enters into the price of products, how all laborers are themselves guilty of the sin of usury: we have long known all these things, just as we are convinced of the personal honesty of annuitants and proprietors.

We say: The economic system based on the fiction of the productivity of capital, justifiable once, is henceforth illegitimate. Its inefficacy and malfeasance have been exposed; it is the cause of all existing misery, the present mainstay of that old fiction of representative government which is the last form of tyranny among men.

I will not detain myself with the purely religious considerations with which your letter closes. Religion, allow me to say, has nothing to do with political economy. A real science is sufficient unto itself; otherwise, it cannot exist. If political economy needs the sanction of religion to make up for the inadequacy of its theories, and if, in its turn, religion, as an excuse for the barrenness of its dogmas, pleads the exigencies of political economy, the result will be that political economy and religion, instead of mutually sustaining each other, will accuse each other, and both will perish.

Begin, then, by doing justice, and liberty, fraternity, and wealth will increase; even the happiness of another life will be only the surer. Is the inequality of capitalistic income, yes or no, the primary cause of the physical, moral, and intellectual poverty which today afflicts society? Is it necessary to equalize the income of all men, to make the circulation of capital gratuitous by assimilating it to the exchange of products, and to destroy interest? That is what Socialism asks, and it must have an answer.

Socialism, in its most positive conclusions, furnishes the solution in the democratic centralization and gratuity of credit, combined with a single tax, to replace all other taxes, and to be levied on capital.

Let this solution be verified; let its application be tried. That is the only way to refute Socialism; except that is done, we shall shout louder than ever our war-cry: Property is robbery!

INTEREST AND PRINCIPAL **-THE ORIGIN OF GROUND RENT-**

P.-J. PROUDHON

These letters, addressed to Frederic Bastiat, an economist, originally appeared in a debate published in *The Voice of the People*, in 1849.

I said before that in ancient times the landed proprietor, when neither he nor his family farmed his land, as was the case among the Romans in the early days of the Republic, cultivated it through his slaves: such was the general practice of patrician families. Then slavery and the soil were chained together; the farmer was called *adscriptus gleboe*, joined to the land; property in men and things was undivided. The price of a farm depended (1) upon its area and quality of its soil, (2) upon the quantity of stock, and (3) upon the number of slaves.

When the emancipation of the slave was proclaimed, the proprietor lost the man and kept the land; just as today, in freeing the blacks, we leave the master his property in land and stock. Nevertheless, from the standpoint of ancient law as well as of natural and Christian right, man, born to labor, cannot dispense with the implements of labor; the principles of emancipation involved an agrarian law which guarantees them to him and protects him in their use: otherwise, this pretended emancipation was only an act of hateful cruelty, an infamous deception, and if, as Moses said, interest, or the yearly income from capital, reimburses capital, might it not be said that servitude reimburses property? The theologians and the law-givers of the time did not understand this, and by an irreconcilable

contradiction, which still exists, they continued to rail at usury, but gave absolution to rent.

The result was that the emancipated slave, and, a few centuries later, the enfranchised serf, without means of existence, was obliged to become a tenant and pay tribute. The master grew still richer. I will furnish you, he says, with land; you shall furnish the labor; and we will divide the products. It was a reproduction on the farm of the ways and customs of business. I will lend you ten talents, said the moneyed man to the workingman; you shall use them; and then either we will divide the profits, or else, as long as you keep my money, you shall pay me a twentieth; or, if you prefer, at the expiration of the loan, you shall return double the amount originally received. From this sprang ground-rent, unknown to the Russians and the Arabs. The exploitation of man by man, thanks to this transformation, passed into the form of law: Usury, condemned in the form of lending at interest, tolerated in the *contrat à la grosse*, was extolled in the form of farm-rent. From that moment commercial and industrial progress served to make it only more and more customary. This was necessary in order to exhibit all the varieties of slavery and robbery, and to establish the true law of human liberty.

Once engaged in this practice of *interesse*, so strangely understood, so improperly applied, society began to revolve in the circle of its miseries. Then it was that inequality of conditions seemed a law of civilization, and evil a necessity of our nature.

Two ways, however, seemed open to laborers to free themselves from exploitation by the capitalist: one was, as we said above, the gradual balancing of values and

consequently a decrease in the price of capital; the other was the reciprocity of interest.

But it is evident that the income from capital, represented mainly by money, cannot be totally destroyed by decreasing it; for, as you well say, sir, if my capital brought me nothing, instead of lending it I should keep it, and the laborer, in consequence of having refused to pay the tithe, would be out of work. As for the reciprocity of usury, it is certainly possible between contractor and contractor, capitalist and capitalist, proprietor and proprietor; but between proprietor, capitalist, or contractor, and the common laborer, it is utterly impossible. It is impossible, I say, as long as in commerce interest on capital is added to the workingman's wages as a part of the price of merchandise, for the workingman to repurchase what he has himself produced. To live by working is a principle which, as long as interest exists, involves a contradiction.

Society once driven into this corner, the absurdity of the capitalistic theory is shown by the absurdity of its consequences; the inherent iniquity of interest results from its homicidal effects, and while property begins and ends in rent and usury, its affinity with robbery will be established. Can it exist under other conditions? For my own part, I say no: but this is an inquiry entirely foreign to the question now under discussion, and I will not enter upon it.

Look now at the situation of both capitalist and laborer, resulting from the invention of money, the power of specie, and the established similarity between the lending of money and the renting of land and houses.

The first,--for it is necessary to justify him, even in your eyes,--controlled by the prejudice in favor of money, cannot

gratuitously dispossess himself of his capital in favor of the laborer. Not that such dispossession is a sacrifice, for, in his hands, capital is unproductive; not that he incurs any risk of loss, for, by taking a mortgage as security, he is sure of repayment; not that this loaning costs him the slightest trouble, unless you consider as such counting the money and verifying the security; but because, by dispossessing himself for ever so short a time of his money,--of this money which, by its prerogative, is, as has been so justly said, power,--the capitalist lessens his strength and his safety.

This would be otherwise, if, gold and silver were only ordinary merchandise; if the possession of coin was regarded as no more desirable than the possession of wheat, wine, oil, or leather; if the simple ability to labor gave a man the same security as the possession of money. While this monopoly of circulation and exchange exists, usury is necessary to the capitalist. His motives, in the light of justice, are not reprehensible: when his money leaves his own vault, his safety goes with it.

Now, this necessity, which is laid upon the capitalist by an involuntary and widespread prejudice, is, as respects the laborer, the most shameful of robberies, as well as the most hateful of tyrannies, the tyranny of force.

What are, indeed, the theoretical and practical consequences to the working-class, to this vital, productive, and moral portion of society, of lending at interest and its counterpart, farm-rent? I today confine myself to the enumeration of some of them, to which I call your attention, and which hereafter, if agreeable to you, shall be the subject of our discussion.

And first, it is the principle of interest, or of net product, that enables an individual really and legitimately to live without working: that is the conclusion of your last letter but one, and such, in fact, is the condition to which every one today aspires.

Again: If the principle of net product is true of the individual, it must be true also of the nation; for example, the capital of France, both real and personal, being valued at one hundred and thirty-two billions, which yields, at five per cent, an annual income of sixty-six hundred millions, at least half of the French nation might, if it pleased, live without working; in England, where the amount of accumulated capital is much larger than in France, and the population much smaller, the entire nation, from Queen Victoria down to the lowest hanger-on of the son of Liverpool, might live on the product of its capital, promenading with cane in hand, or groaning in public meetings. Which leads to this conclusion, evidently an absurd one, that, thanks to its capital, such a nation has more income than its labor can produce.

Again: The total amount of wages paid annually in France being in the neighborhood of six thousand millions, and the total amount of revenue yielded by capital being also six thousand millions, making the market value of the annual product of the nation twelve thousand millions, the producers, who are also consumers, can and must pay, with the six thousand millions of wages allowed them, the twelve thousand millions which commerce demands of them as the price of its merchandise, and without which the capitalists would find themselves minus an income.

Again: Interest being perpetual in its nature, and never being regarded, as Moses wished, as a repayment of the

original capital, and further, it being possible to place each year's income at interest in its turn, thus forming a new loan, and consequently giving rise to a new income, the smallest amount of capital may, in time, yield sums so enormous as to exceed in value a mass of gold as large as the globe on which we live. Price demonstrated this in his theory of liquidation.

Again: The productivity of capital being the immediate and sole cause of the inequality of wealth, and the continual accumulation of capital in a few hands, it must be admitted, in spite of the progress of knowledge, in spite of Christian revelation and the extension of public liberty, that society is naturally and necessarily divided into two classes--a class of exploiting capitalists and a class of exploited laborers.